REPORT OF EXAMINATION
OF THE

BALBOA LIFE INSURANCE COMPANY

AS OF
DECEMBER 31, 2005

Participating State
and Zone:

California

Filed June 19, 2007

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LosAngeles, California
May 25, 2007

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Kent Michie
Secretary, Zone IV-Western
Commissioner of Insurance
Department of Insurance, State of Utah
Salt Lake City, Utah

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary and Commissioner:

Pursuant to your instructions, an examination was made of the

BALBOA LIFE INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 3349 Michelson Drive, Suite 200, Irvine, California 92612.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. The examination was made pursuant to the National Association of Insurance Commissioners' (NAIC) plan of examination. The examination included a review of the Company’s practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2005, as deemed necessary under the circumstances.

The examination was conducted concurrently with the examinations of the Company's affiliates, Balboa Insurance Company and Meritplan Insurance Company.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees', and agents' welfare and pension plans; growth of company; business in force by states; mortality and loss experience; and sales and advertising.

COMPANY HISTORY

The Company is a wholly-owned subsidiary of Balboa Insurance Group, Inc. (BIG), which is a wholly-owned subsidiary of Countrywide Financial Corporation (CFC). BIG is the holding company for the insurance services group of CFC, which provides agency-related services, property, casualty and life insurance underwriting and reinsurance.

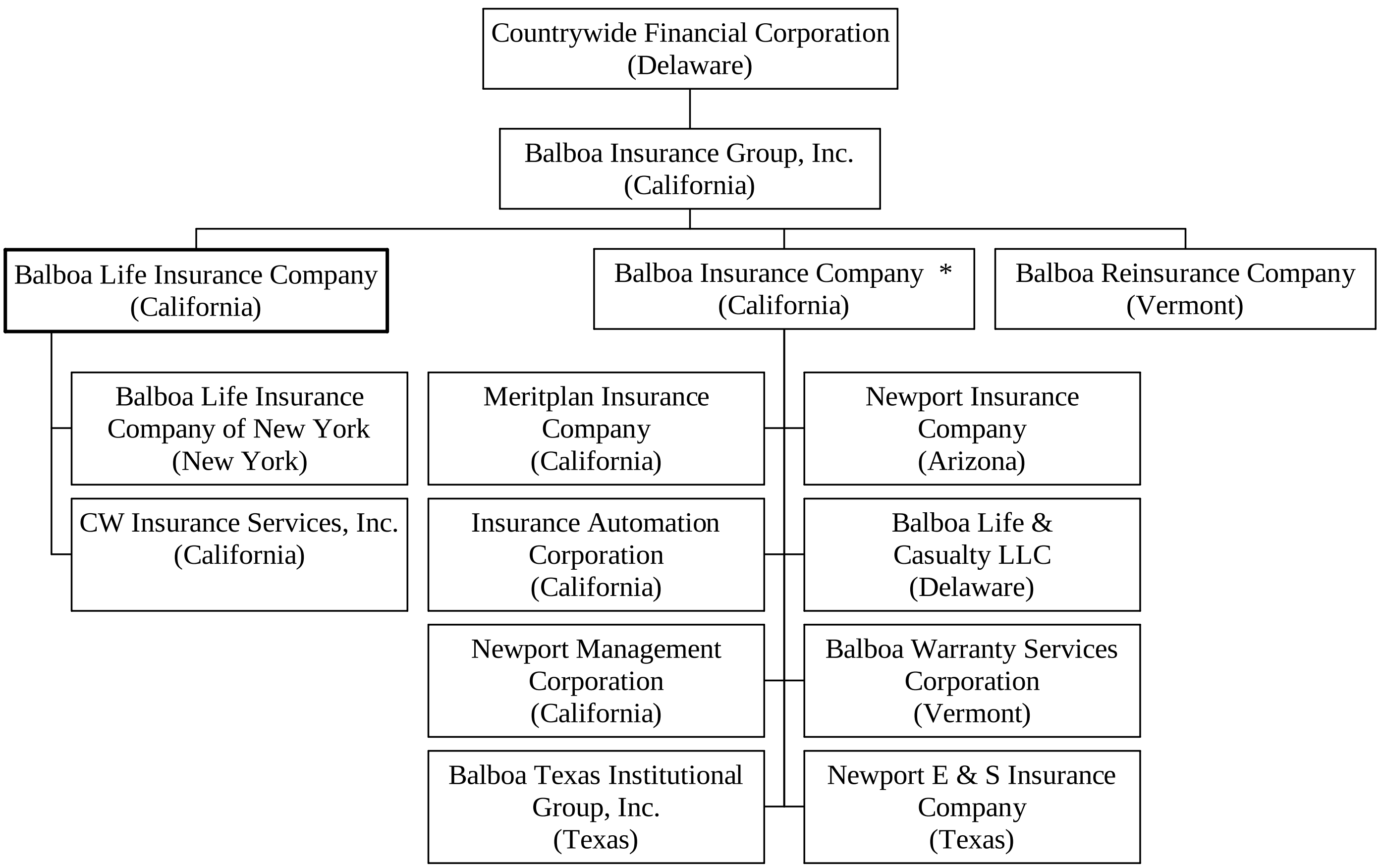
The Company has 25,000 shares of $100 par value common stock authorized and 25,000 shares issued and outstanding which are owned by BIG. The Company has no preferred stock authorized, issued or outstanding. The Company owns 100% of the outstanding stock of Balboa Life Insurance Company of New York and CW Insurance Investment, Inc.

In November 2005, the Company paid a $45 million extraordinary dividend to its immediate parent, BIG. The extraordinary dividend distribution was approved by the California Department of Insurance (CDI) on November 10, 2005 pursuant to California Insurance Code (CIC) Section 1215.5(g). At the same time, BIG contributed $45 million in cash and securities to its subsidiary, Balboa Insurance Company (BIC).

In September 2006, the Company paid a $30 million extraordinary dividend to its immediate parent, BIG. The extraordinary dividend was approved by the CDI on September 21, 2006 pursuant to CIC Section 10530. At the same time, BIG contributed $30 million in cash and securities to BIC who, in turn, contributed $30 million in cash and securities to Meritplan Insurance Company.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary and affiliated insurance companies, depicts the Company's relationship within the holding company system: (all ownership is 100% except as noted below)



(*) The Company owns one share of stock out of 25,000 issued and outstanding shares of Balboa Insurance Company

Management of the Company is vested in a seven-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2005 follows:

Directors

Name and Residence	Principal Business Affiliation
Carlos M. Garcia Hidden Hills, California	Executive Managing Director, Chief of Bank and Insurance Operations Countrywide Financial Corporation
Andrew Gissinger III Calabasas, California	Senior Managing Director, Chief Production Officer Countrywide Home Loans
Robert V. James Dana Point, California	Senior Managing Director, President and Chief Operating Officer Balboa Insurance Group
Richard S. Lewis Chatsworth, California	Executive Vice President, Chief Administrative Officer Balboa Insurance Group
Mark A. McElroy Santa Ana, California	Managing Director Balboa Insurance Group
Thomas M. Scrivener Camarillo, California	Managing Director, Financial Analysis and Administration Countrywide Financial Corporation
Howard B. Wexler Dana Point, California	Managing Director, General Counsel Diversified Operations Countrywide Financial Corporation

Principal Officers

Name	Title
Robert V. James	President, Chief Operating Officer and Chief Executive Officer
Franklin T. Dunn	Executive Vice President, Secretary and General Counsel
Ronald A. Closser	Executive Vice President, Personal Lines
Mark A. McElroy	Executive Vice President, Lender Placed Lines
David A. Kuhn	Executive Vice President, Commercial Lines Brokerage

Name	Title
Kenneth L. Mertzel	Executive Vice President, Chief Financial Officer
Richard S. Lewis	Executive Vice President, Chief Administrative Officer
Craig L. Carson	Executive Vice President, Marketing
Laurie A. Fitzgerald	Executive Vice President, Chief Accounting Officer

Management Agreements

Administrative Services Agreement: Effective January 1, 2001, Balboa Life & Casualty LLC (BLC) entered into an Administrative Services Agreement with the Company, Balboa Insurance Company (BIC), Meritplan Insurance Company (MIC), Newport Management Corporation (NMC), Newport Insurance Company (NIC), and Insurance Automation Corporation (IAC). Under the terms of the agreement, BLC provided all human resources, underwriting, legal services, actuarial services, claims adjusting and payment assistance, facilities, accounting functions, computer resources, and marketing functions. The companies reimbursed BLC for the actual cost of these services. The California Department of Insurance (CDI) approved this agreement on May 16, 2001. For 2003, 2004, and 2005, the Company paid BLC $4.87 million, $4.39 million and $4.47 million, respectively.

On December 31, 2005, the Company terminated the above Administrative Services Agreement, and entered into a Balboa Insurance Group Intercompany Services Agreement (Intercompany Services Agreement) effective January 1, 2006. The Intercompany Services Agreement is between the Company, and BLC, BIC, MIC, NMC, NIC, IAC, Balboa Life Insurance Company of New York (BLICNY), Newport E&S Insurance Company, Balboa Warranty Services Corporation, Countrywide Insurance Services, Inc. (CIS), Countrywide Insurance Services of Arizona, Inc. (CIS-AZ), Countrywide Insurance Services of Texas, Inc. (CIS-TX), DirectNet Insurance Agency, Inc. (DirectNet) and DirectNet Insurance Agency of Arizona, Inc. (DirectNet-AZ), collectively known as the Group Members.

Under the terms of the new Intercompany Services Agreement, BIC now provides the information systems services, EDP, accounting and financial functions, underwriting, claims adjusting and payment processing, legal services, actuarial services, and marketing functions. The Group Members reimburse BIC for the actual cost of these services. BLC continues to provide the Group Members with payroll services and facilities based on actual cost. The Company, NMC, CIS and DirectNet also provide some miscellaneous services to the Group Members on an actual cost basis.

The new Intercompany Services Agreement was entered into to consolidate all service agreements into one agreement. The new Intercompany Services Agreement also specifically identifies the services being provided to affiliated insurance companies. Since BLC still acts as payroll agent for the Group Members, the Company continues to reimburse BLC. In 2006, the Company paid BLC $4.5 million. The CDI approved this agreement on February 27, 2006.

Investment Management Agreement: Effective April 17, 2000, the Company, BIC, MIC, NIC and IAC entered into an Investment Management Agreement with Country Home Loans, Inc. (CHL), a New York Corporation. In accordance with the Company's investment guidelines, CHL provides investment management services and is compensated based on actual expenses incurred. The CDI approved this agreement on November 2, 2000. For 2003, 2004 and 2005, the Company paid $64,163, $65,666 and $23,028, respectively, in investment and miscellaneous fees to CHL under the terms of this agreement.

Consolidated Federal Income Tax Allocation Agreement: The Company is a party to a Consolidated Federal Income Tax Allocation Agreement with its subsidiary, Balboa Life Insurance Company of New York. Under the terms of this agreement, the companies file a consolidated federal income tax return. The consolidated federal income tax liability is allocated between the companies in the ratio that each company's separate tax return liability bears to the total consolidated federal tax liability. This agreement was entered into and approved by the CDI on November 2, 2000. For 2003 and 2005 the Company paid $720,783, and $948,795, respectively, in income tax under the terms of this agreement. For 2004, the Company paid no income tax.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2005, the Company was licensed to transact life and accident and health insurance. The Company is licensed to write in all states and in the District of Columbia, Guam, U.S. Virgin Islands, Canada, and the Northern Mariana Islands. Of the $20.3 million in direct premiums written, approximately $3.1 million or 15% was written in California, $2.4 million or 11.8% in Texas, $1.49 million or 7.3% in Ohio and $1 million or 4.9% in Florida.

The Company specializes in credit related and mass marketed products through financial institutions including group credit life and accident and health coverage written in conjunction with consumer loans and revolving charge transactions. The Company also offers mortgage life insurance on real estate related loans and mass marketed term life and health coverage.

Business is primarily marketed and produced through a combination of agencies affiliated with the Company as well as financial institutions, general and independent agents. Countrywide Insurance Services, an affiliated general agent, is the largest producer.

REINSURANCE

Assumed

As of December 31, 2005, the Company's assumed business is in run-off. The Company reported no material assumed premiums or liabilities as of year-end 2005.

Ceded

The Company's maximum net retention on any one risk is $200,000. As of December 31, 2005, the Company had the following reinsurance ceded contracts in-force:

Type of Treaty and Business	Name of Reinsurer	Company's Retention	Reinsurer's Maximum Limits
Life Reinsurance			
Automatic Reinsurance on Excess over net Retention - Single Premium Credit and Non-Credit Life	Munich American Reassurance Company	$50,000 per Certificate	$150,000 excess of $50,000
Coinsurance Agreement on Platform Life	Munich American Reassurance Company	25% July 1, 2004 50% January 19, 2005	37.5% / 50% of Amount Between $25,000 to $400,000
Coinsurance Agreement on Platform Life	Security Life of Denver Insurance Company	25% July 1, 2004	37.5% of Amount Between $25,000 to $400,000
Yearly Renewable Term Facultative, Excess of $100,000 on Mortgage Life	Transamerica Occidental Life Insurance Company	$100,000	$1 Million Automatic Limit
Coinsurance Agreement on Graded Premium Life	Transamerica International Re (Bermuda) Ltd.	$100,000	50% of Amount Between $100,000 to $200,000
100% Quota Share of each and every Credit Life insurance risk for 29 named states & District of Columbia *	American Partners Life Insurance Company	States not reinsured	Policy Limit
100% Quota Share of each and every Life insurance risk (Charge Account Protector for Line of Credit) *	American Partners Life Insurance Company	None - 100% ceded	Policy Limit
Accident and Health Reinsurance			
100% Quota Share of each and every Accident and Health (Credit Disability) for 28 named states and District of Columbia *	Amex Assurance Company	None – 100% ceded States not reinsured	Policy Limit
100% Quota Share of each and every Accident and Health (Charge Account Protector for Line of Credit) *	Amex Assurance Company	None - 100% ceded	Policy Limit
15% Quota Share of each and every Accidental Death and Dismemberment insurance risk	Employees Life Insurance Company	85%	15%

* Reinsurance agreements were terminated effective December 31, 2005.

As of December 31, 2005, reserve credits taken for all ceded reinsurance totaled $9.7 million or 20.6% of capital and surplus. The reserve credits taken all relate to three agreements that are currently in run-off with American Health and Life Insurance Company, Protective Life and Annuity Insurance Company and Transamerica International Re (Bermuda) Ltd. and two new agreements with Munich American Reassurance Company and Security Life of Denver Insurance Company.

ACCOUNTS AND RECORDS

The previous examination disclosed that the Company's assets were commingled with assets of its affiliates. In an effort to resolve this issue, Balboa Insurance Company (BIC) entered into an Intercompany Pooling Agreement (Pooling Agreement) with its affiliates Meritplan Insurance Company and Newport Insurance Company. Under the terms of the Pooling Agreement, BIC is authorized to collect premiums on behalf of all parties to the Pooling Agreement. The Company is not a party to the Pooling Agreement.

During the course of this examination, it was noted that premium receipts on certain property and casualty business written by Balboa Insurance Company (BIC) and its affiliates are remitted directly to the Company. On a monthly basis, the Company allocates the cash receipts back to the appropriate company. Since the Company is not a party to the Pooling Agreement, it is recommended that the Company and BIC change these procedures so that premium receipts not associated with the Pooling Agreement are remitted directly to the company that issued the policy.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2005

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2005

Reconciliation of Capital and Surplus
from December 31, 2002 through December 31, 2005

Statement of Financial Condition
as of December 31, 2005

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 51,865,598	$	$ 51,865,598	
Common stocks	14,592,068		14,592,068	
Cash and short-term investments	1,816,129		1,816,129	
Investment income due and accrued	425,166		425,166	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	2,232,814	11,900	2,220,914	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	364,762		364,762	
Reinsurance:				
Other amounts receivable under reinsurance treaties	46,873		46,873	
Current federal and foreign income tax recoverable and interest thereon	286,114		286,114	
Net deferred tax asset	1,018,781	854,529	164,252	
Guaranty funds receivable or on deposit	139,648		139,648	
Receivable from parent, subsidiaries and affiliates	206		206	
Aggregate write-ins for other than invested assets	26,704	26,704		
Total assets	$ 72,814,863	$ 893,133	$ 71,921,730	

Liabilities, Capital and Surplus				
Aggregate reserve for life contracts			$ 12,064,125	(1)
Aggregate reserve for accident and health contracts			2,871,049	(1)
Contract claims:				
Life			1,323,030	(1)
Accident and health			1,497,608	(1)
Interest maintenance reserve			2,191,618	
General expenses due or accrued			1,351,935	
Taxes, licenses and fees due or accrued			155,307	
Miscellaneous liabilities:				
Asset valuation reserve			110,350	
Payable to parent, subsidiaries and affiliates			3,164,946	
Aggregate write-ins for liabilities			25,986	
Total liabilities			24,755,954	
Common capital stock		$ 2,500,000		
Gross paid-in and contributed surplus		25,420,150		
Aggregate write-ins for special surplus funds		2,811,073		
Unassigned surplus		16,434,553		
Capital and surplus			47,165,776	
Total liabilities, capital and surplus			$ 71,921,730	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2005

Summary of Operations

Premiums and annuity considerations	$ 19,043,154	
Net investment income	3,812,716	
Amortization of interest maintenance reserve	190,362	
Commission and expense allowances on reinsurance ceded	758,657	
Aggregate write-ins for miscellaneous income	600,140	
Total		$ 24,405,029
Death benefits	$ 3,189,933	
Annuity benefits	42,288	
Disability benefits and benefits under accident and health policies	2,542,247	
Increase in aggregate reserves for life and accident and health contracts	(4,027,436)	
Total	$ 1,747,032	
Commissions on premiums, annuity considerations and deposit type contracts	4,804,136	
Commissions and expense allowances on reinsurance assumed	17,672	
General insurance expenses	7,186,308	
Insurance taxes, licenses and fees, excluding federal income taxes	780,875	
Increase in loading on deferred and uncollected premiums	70,908	
Aggregate write-ins for deductions	608,709	
Total		15,215,640
Net gain from operations before federal income taxes		9,189,389
Federal and foreign income taxes incurred		1,467,737
Net gain from operations after federal income taxes		7,721,652
Net realized capital losses		(234,244)
Net income		$ 7,487,408

Capital and Surplus Account

Capital and surplus, December 31, 2004		$ 84,490,869
Net income	$ 7,487,408	
Change in net unrealized capital gains	707,032	
Change in net deferred income tax	196,149	
Change in nonadmitted assets and related items	(240,996)	
Change in liability for reinsurance in unauthorized companies	27,420	
Change in assets valuation reserve	98,035	
Surplus adjustment: Change in surplus as a result of reinsurance	(600,141)	
Dividends to stockholders	(45,000,000)	
Net change in capital and surplus for the year		(37,325,093)
Capital and surplus, December 31, 2005		$ 47,165,776

Reconciliation of Capital and Surplus
from December 31, 2002 through December 31, 2005

	Gain in Surplus	Loss in Surplus	
Capital and surplus, December 31, 2002 per Examination			$ 68,177,827
Net income	$ 25,468,193	$	
Change in net unrealized capital gain	1,597,905		
Change in net unrealized foreign exchange capital gain	1,445,921		
Change in net deferred income tax		176,767	
Change in nonadmitted assets	231,521		
Change in asset valuation reserve	143,317		
Change in surplus as a result of reinsurance (surplus adjustments)		17,405,233	
Dividends to stockholders		45,000,000	
Aggregate write-ins for gains in surplus	12,683,092		
Totals	$ 41,569,949	$ 62,582,000	
Net decrease in capital and surplus			(21,012,051)
Capital and surplus, December 31, 2005, per Examination			$ 47,165,776

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Reserve for Life Contracts
(1) Aggregate Reserve for Accident and Health Contracts
(1) Contract Claims - Life
(1) Contract Claims - Accident and Health

The California Department of Insurance (CDI), pursuant to California Insurance Code (CIC) Section 733(g), retained an independent actuary for the purpose of providing an actuarial evaluation of the Company's above captioned reserves. Based on the independent actuary's work performed and the review of their work by a Life Actuary from the CDI, the Company's December 31, 2005 reserves have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records (Page 9): It is recommended that the Company and Balboa Insurance Company change their procedures so that premium receipts not associated with the Pooling Agreement are remitted directly to the company that issued the policy.

Previous Report of Examination

Management and Control – Management Agreements (Page 5):

(1) It was recommended that the Company prepare and maintain written procedures on how allocations are to be made under the terms of the Administrative Services Agreement. The Company has complied with this recommendation.

(2) It was recommended that the Company prepare and maintain documentation that would provide a complete audit trail from the actual expenses incurred by the entity providing the services to the reimbursement of these amounts by the companies receiving these services. The Company has complied with this recommendation.

(3) It was recommended that the Company amend the Administrative Services Agreement and any future agreements when changes are made to the original approved agreement. Also, the Company should submit the amendment to the

California Department Insurance (CDI) for approval. The Company has complied with this recommendation.

Accounts and Records – Commingling of Assets (Page 8): It was recommended that the Company and its affiliates change their procedures so that premium receipts are remitted directly to the company that wrote the premium. The Company still has not fully complied with this recommendation.

Accounts and Records – Amendments to Financial Statements (Page 9): It was recommended that the Company implement controls to detect errors and properly review the statutory financial statements before they are submitted to the CDI. The Company has complied with this recommendation.

Receivable for Securities (Page 13): It was recommended that the Company comply with Statements of Statutory Accounting Principles No. 21, Paragraphs 7 and 8. The Company has complied with this recommendation.

Aggregate Reserve for Life Contracts (Page 13): The following recommendations were made:

(1) The Company should file a Section 8 Actuarial Opinion and X Factor Opinion and prepare a supporting actuarial memorandum. The Company has complied with this recommendation.

(2) The Company should report the proper valuation basis for its annuities in its Annual Statement Exhibit 5. The Company has complied with this recommendation.

(3) The Company's appointed actuary should include annuity business in the asset adequacy analysis. The Company has complied with this recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees of Balboa Life and Casualty LLC during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Duane Armstrong, CFE
Examiner-In-Charge
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California